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# **Outcry Grows Over Transfer of U.K. Funds by Lehman**

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The fate of Lehman Brothers Holdings Inc.'s operations remains clouded by controversy despite the approval by a U.S. bankruptcy judge of the sale of the securities firm's U.S. operations to Britain's Barclays PLC.

Even as the Barclays sale was approved Saturday, more Lehman clients, employees and others have objected, claiming they are owed money or assets.

At issue is how Lehman transferred corporate funds and client assets from its European operations when the parent firm in New York filed for bankruptcy and later agreed to sell its U.S. brokerage and investment-banking operations to Barclays.

Meantime, Lehman bankers in London late Sunday were considering selling all or parts of the European operations to Nomura Holdings Inc., the Japanese investment bank, or Barclays. A sale to Nomura was a leading option Sunday but any deal could come undone.

One goal in finding a buyer was preserving thousands of jobs that appeared to be in jeopardy after the European unit filed for insolvency proceedings a week ago.

In a packed courtroom Saturday, a U.S. bankruptcy judge in New York approved the U.S. sale to Barclays following an eight-hour hearing where creditors and others opposed the sale. One of their objections was Lehman's internal transfer of funding out of London.

Lehman moved more than \$8 billion between Lehman's European headquarters in London and New York, where Lehman collects money from its global units and then disperses it daily.

On the Friday before Lehman filed for bankruptcy, Lehman's London office was surprised to find that billions of dollars it expected in its accounts weren't there, according to a person familiar with the situation. Lehman's London insolvency administrator PricewaterhouseCoopers is seeking to have it repaid.

The issue took on political momentum over the weekend when U.K. Prime Minister Gordon Brown said he is working with U.S. authorities to get billions of dollars returned to the London unit.

"We are asking and working with the American government to get that money

back to pay salaries, not of highflying financiers, but of cleaners and people who are computer operators who would otherwise be denied their money," Mr. Brown said while attending his Labour Party's annual conference in Manchester.

### *Broad Problems*

Problems could extend throughout Europe. Among other fund-raising efforts, Lehman's German unit, Lehman Brothers Bankhaus AG, swapped assets for funding from the European Central Bank. That could leave the central bank holding assets and unable to obtain money from the Lehman unit to cover a decline in the value of the assets, people familiar with the matter said.

That could pose a problem for the ECB, which might need to take a loss on its books at year end if the assets' values were marked down. Lehman assets are also no longer eligible as collateral for the ECB's funding operations since the bank filed for bankruptcy.

While a large bank with offices around the world would be expected to transfer money among its operations, Lehman's moves appear to go beyond that, people familiar with the matter said.

The bankruptcy judge hearing Lehman's case in New York decided Saturday that questions about the transfer of funds shouldn't delay the sale to Barclays. Judge James Peck said that rejecting the sale "could prove to be truly disastrous" because of the jobs and customer accounts at stake.

The events inside his packed courtroom on the sixth floor of the federal courthouse in Manhattan -- with the crowd spilling into the hallway -- were "significant to the markets, to the U.S. economy and to the global economy," Judge Peck said.

### *'We Should Be Safe'*

Since money isn't being transferred to Barclays, if any transfers were inappropriate, they could be addressed later, he ruled. "In practical terms, we should be safe."

In a sign of how quickly Lehman's business was changing, Lehman operating chief Herbert "Bart" H. McDade III said in court that at the time the deal was reached with Barclays, Lehman's broker-dealer business had \$1.3 billion in cash, \$700 million of which would have gone to Barclays. Now, there is virtually no cash left, Lehman lawyers said, after the Chicago Mercantile Exchange Thursday unilaterally closed Lehman's trading positions on the exchange.

The retirement fund for Lehman's employees in the U.K. also is lining up to object. Lehman's administrators in London have applied to the U.K.'s Pension Protection Fund. That fund will examine the pension plan and see if it is eligible for compensation. The filing is typical, and the protection fund is expected to analyze whether there are insufficient amounts to cover the pension plan's liabilities.

### *GLG's Claims*

Among clients claiming in court filings that cash may have been improperly moved between the London and U.S. units is London hedge fund GLG Partners LP, which alleged in court papers that assets "may have been misappropriated."

In its filing, GLG, one of Europe's biggest hedge funds, said Lehman's London unit has been its prime broker in recent years and that GLG holds significant claims against Lehman's European operations. Lehman also owns a stake in GLG.

### *'May Require Investigation'*

PricewaterhouseCoopers LLP, which is overseeing the insolvency proceedings of Lehman's main European unit -- Lehman Brothers International (Europe), or LBIE -- says in court filings that an early inquiry into Lehman's operations has revealed "substantial transfers of securities out of LBIE which merit close investigation."

The firm said it has "identified more than \$8 billion in such funds that are due to LBIE but that LBIE does not hold. As the investigation progresses, it is quite possible the joint administrators will discover further transfers that may require investigation," according to the PricewaterhouseCoopers court filing.

Lehman's Mr. McDade said he had seen internal Lehman financial documents regarding intercompany transfers from Europe of \$8 billion.

Mr. McDade declined to comment during a break from the hearings.

PricewaterhouseCoopers is looking at whether Lehman's movement of hedge-fund-client money owed to Lehman's London unit was proper.

Typically, Lehman would transfer hedge-fund clients' securities out of its main European unit, LBIE, to its U.S. broker-dealer, then to a Lehman unit in Luxembourg, and then to a new prime broker. Then, Lehman U.S. would send funds tied to the original securities back to London.

Just before Lehman filed for bankruptcy, however, securities left London but the money tied to them was never returned to the London office, says PricewaterhouseCoopers.

—Dana Cimilluca and David Crawford contributed to this article.

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